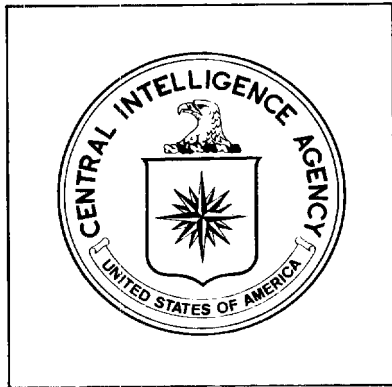


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

EC Finance Ministers Debate Internal Exchange-rate Problems	1
EC Commissioner Soames Asked to Peking	4
Lisbon Delays Assembly Vote Thirteen Days.	5
	
Norwegian Leftists Form New Party.	7
	
Portuguese Government's Ban on Political Parties a Hot Issue in Italy	10

March 20, 1975

SECRET

SECRET

25X1A

EC Finance Ministers Debate Internal
Exchange-rate Problems

In a series of meetings last Tuesday, EC finance ministers discussed several problems relating to floating exchange rates and decided to seek consultations with the US on ways of spurring Western economic growth.

The ministers agreed to seek discussions with the US, apparently in order to ask for more stimulative US economic policies. The EC countries feel that their own efforts must be aided by more aggressive US reflationary policies in order to stimulate a significant turnaround in European economic activity this year. In fact, most EC members are still being quite cautious in applying stimulative measures to avoid rekindling inflationary pressures. Despite this, some of them have been critical of what they feel has been excessive US concern with inflation at the expense of economic growth and, consequently, the size of their export markets.

2 Those EC ministers involved with the operation of the 7-country European joint float met with the non-EC float members and Swiss representatives to discuss the inclusion of the Swiss franc in the currency group. The Swiss, who hope to relieve upward pressure on the franc and maintain a competitive position with their European trading partners, have apparently made a formal application for discussions on the subject. Some EC members of the joint float, especially the UK, Italy, and Denmark, are apprehensive

March 20, 1975

-1-

SECRET

SECRET

2 that Swiss inclusion in the band may cause upward pressure on it, making the reentry of those EC currencies still floating outside the band as well as the continued maintenance of weaker EC currencies in the band more difficult. Despite these objections, it is quite possible that the Swiss will reach agreement with the current members or link up with the currency group either formally or informally within the next month or two.

3 The French, who left the European joint float a year ago, are also apparently seeking to rejoin, but on their own terms. In response to a demarche by the Belgians, Paris expressed an interest in rejoining the joint float if the current 2.25 percent margins of fluctuations between currencies could be expanded to 4 or 4.5 percent.

It is unlikely, however, that the other members will be willing to accept the French terms since it was the disenchantment with the IMF decision to broaden international margins to 4.5 percent on December 10, 1971 that provided the impetus for the implementation of narrower margins between EC currencies.

4 In another move related to exchange-rate problems, the EC finance ministers decided to revamp the "European unit of account" to make provision for exchange-rate changes between member currencies. The change will, in effect, lead to increased payments by those countries whose currencies depreciate relative to other EC currencies. Because the use of a flexible payments system would cause political difficulties--especially for the British--if applied at present to sensitive areas such as agriculture and the Community budget, the Council decided to limit the use of the revamped unit to

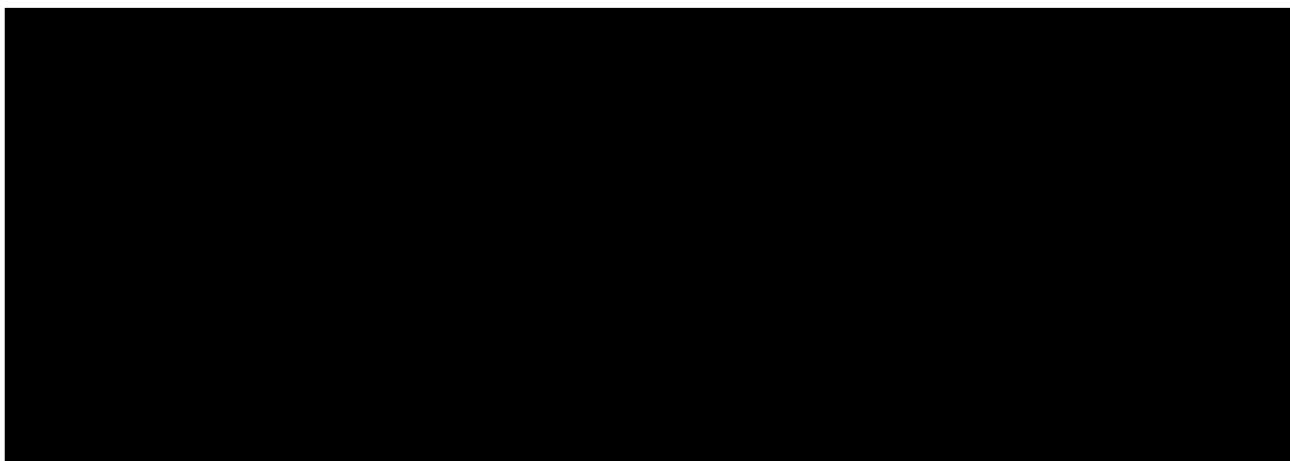
March 20, 1975

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4 | the European Investment Bank and European
Development Fund. Further applications will
have to await the final settlement of problems
such as Britain's position in the EC. (Secret
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25X1A



March 20, 1975

-3-
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EC Commissioner Soames Asked to Peking

1 The projected visit of Christopher Soames, the EC commissioner for external affairs, to Peking in May will mark another step toward establishing formal relations between the EC and China. The Soames visit is being made at the invitation of China's Institute for Foreign Relations.

2 Peking, having already officially accepted a Commission memorandum proposing an EC-China trade agreement, has acknowledged the Commission's right to speak for the community in trade matters. The Soviet Union has been reluctant to concede this much, despite the EC policy that gave the Commission the right to negotiate trade accords with communist countries since the beginning of this year.

2 The Soames visit is a further sign that Peking and the West Europeans want to strengthen relations. This was exemplified earlier this year by the visits to China of Dutch Foreign Minister Van der Stoel and West German political leader Strauss. Other West European leaders are expected in the spring, and Chinese Vice Premier Teng Hsia-ping may visit Paris in May.

2 During Van der Stoel's visit, Chinese Foreign Minister Chiao Kuan-hua said that China was seriously considering negotiating a trade agreement with the EC and, according to the Dutch, appointing an ambassador to the EC as well. (Confidential)

25X1A

March 20, 1975

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25X1A

Lisbon Delays Assembly Vote Thirteen Days

2 | The 24-man Revolutionary Council has announced a two-week delay in the constituent assembly election. It will now be held on April 25, the anniversary of the overthrow of the Caetano regime by the Armed Forces Movement; the electoral campaign, due to begin today, was put off until April 2.

2 | A statement by the Communications Ministry on Tuesday had hinted that the election might be postponed from the scheduled date of April 12--not because of recent political turmoil but because of "technical problems." The Council indicated that disagreement among political parties over party symbols to be printed on the ballots had caused the delay. The Communists reportedly are afraid that the use of variations of the hammer and sickle by extreme left-wing groups might confuse Communist voters.

3 | When the Armed Forces Movement assumed power, it promised an election for a constituent assembly within a year. Another postponement, however, would indicate that the Movement does not intend to hold elections at all.

1 | In a related development, the Movement increased its control over the election by removing the 14 political party representatives from the National Electoral Commission, leaving 14 government and military officials to oversee the election. A Popular Democratic Party leader has told a US embassy official that the move might turn out for the best, however, because vocal representatives of the extreme left were holding up the work of the commission. (Confidential)

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Norwegian Leftists Form New Party

Four of Norway's leftist parties papered over differences at a "unity congress" from March 14-16 and decided to merge into the Socialist Left Party.

The four parties--the Communists, Socialist Peoples Party, Democratic Socialists, and Independent Socialists--made their debut in the parliamentary elections of 1973 as the Socialist Election Alliance and won 16 of 155 seats.

At an Alliance congress last April, the parties decided to form one large "radical" party in 1975. In the interim, ideological differences threatened the merger. A declaration of principles, drawn up at the "unity congress," omitted important ideological questions pending further discussion.

Although the Socialist Left Party now has been formed and a constitution has been worked out, the component parties have not dissolved. They have promised to do so, however, before the end of 1976. This would mark the first time a communist party has voluntarily disbanded to merge with another leftist group.

Despite ideological differences still to be ironed out, the Socialist Left Party is united in opposition to NATO, the EC, and most of US foreign policy. The new party will continue the work of the Socialist Election Alliance--exerting leftist pressure on Norway's ruling Labor Party. (Confidential)

March 20, 1975

-7-

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Portuguese Government's Ban on Political Parties
a Hot Issue in Italy

1 The recent ban on three political parties in Portugal--including the Portuguese Christian Democrats--has become a major issue in Italy, where the move is being cited by the Italian Christian Democrats--the dominant party in Italy--as evidence of what happens when a communist party acquires substantial influence in the government.

1 The Italian Christian Democrats on Tuesday withdrew their observers from the Communists' national congress, now meeting in Rome, and accused Communist chief Berlinguer of failing to condemn the Portuguese events in his speech to the congress. The official Christian Democratic newspaper, meanwhile, front-paged a bitter denunciation of the Portuguese decision and concluded that "communism has not changed."

4 1 Italy's Communists are clearly aware of their vulnerability on the Portuguese issue. Berlinguer treated the matter gingerly in his speech opening the congress; he was at pains to stress that the Portuguese situation was "entirely different" from that of Italy and that the path chosen by his party was also different.

4 Berlinguer's speech was remarkable, moreover, for its unprovocative and conciliatory tone. It was obviously designed to calm fears that the Communists are a threat to Italian democracy or, in the international sphere, to US interests. He emphasized, for example, that his party no longer advocates Italian withdrawal from NATO and said that a US voice in world affairs was "indispensable."

March 20, 1975

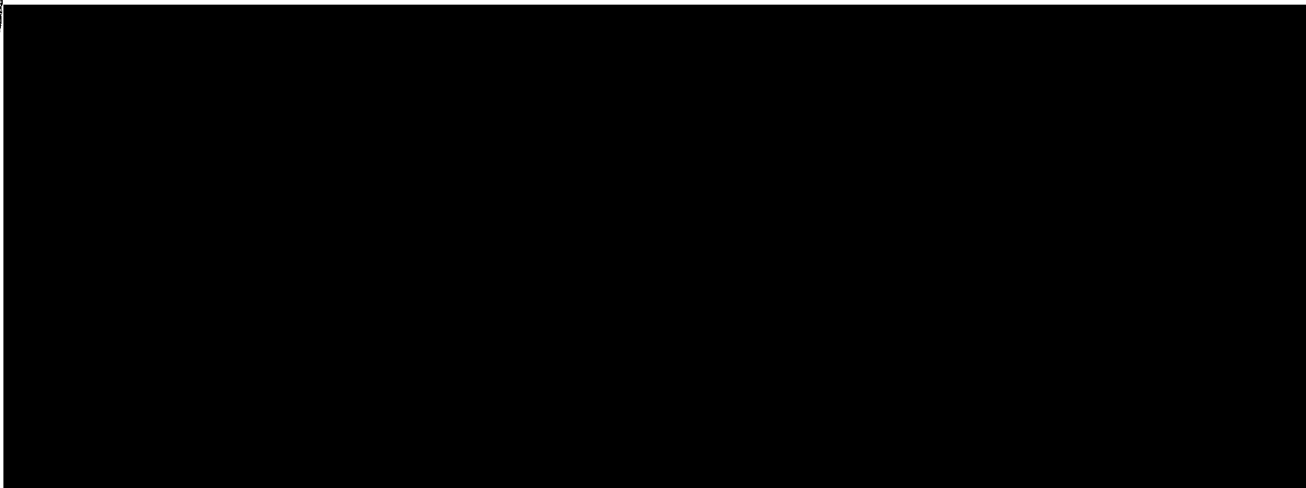
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2 / Thus, the withdrawal of the Christian Democratic observers the next day had a stunning effect and reportedly cast a pall over that session of the congress.

25X1C 4 3 The Italian Communists have viewed the Portuguese situation as a test case of a communist party sharing power in a NATO country. According to [REDACTED] they advised the Portuguese Communists late last year to follow a cautious policy and to avoid trying to destroy the country's traditional-type Western Europe government. The Italian Communists probably will try to justify the ban on the Portuguese Christian Democrats by recycling Lisbon commentary which accuses them of being associated with the abortive coup. (Secret No Foreign Dissem)

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March 20, 1975

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